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– The hotel industry needs a new agreement structure!

Management agreements are detrimental to value growth, according to Pandox' CEO.

Hotel property owners should gradually phase out management agreements to be replaced by incentive based rent agreements. The management agreements that are standard today are holding back profitability and value growth in hotel properties according to Anders Nissen, CEO at Pandox. Tomorrow, Thursday the 18th of September, Anders Nissen is participating in a panel debate at Hot.E (the Hotel Investment Conference Europe) in London where the different types of agreements within the hotel property business will be discussed.

In a traditional management agreement, the property owner appoints a brand to run the hotel for a management fee, often calculated as a share of the turnover. In some cases, the hotel owner also pays an additional incentive fee based on the hotel's profit, but that is normally a smaller part of the total fee.

– As the hotel's gross revenues and distribution strategies determine the income for the brand, the logic consequence of the fee structure is to focus on maximising turnover while areas such as productivity and profitability take a back seat, says Anders Nissen. For the hotel owner, this is bad news as productivity, profitability and smart investments are the most important factors of value growth in a hotel property.

Under the typical structure of a management agreement the property owner shoulders all investment costs in the property, leaving him in a position where he has full financial responsibility for operations, as well as investments, while the operator – who is in control of the value chain – shares any upside, while avoiding risk and investment costs. The solution, according to Anders Nissen, is incentive based rent agreements. The rent the operator pays to the property owner is based on turnover and the costs for investments and product development is shared in a way that creates common goals and incentives. This agreement structure incentivises the operator to increase profitability by adding revenue, lowering costs and making sound long term investments in the product, he adds. The parties share upsides as well as downsides, with capital, potential and risk being reasonably balanced between the parties.

The debate "A Focus On The Investors - Leases" will be held on Thursday the 18th of September at 12:00 noon - 1:00pm at The Money Hall - Jumeirah Carlton Towers, London.

Attached article: Management agreements – blocking the road to value growth for hotel property owners.

For more information, please contact:
Anders Nissen
CEO Pandox AB
+46 8 506 205 50, +46 708 46 02 02
anders.nissen@pandox.com

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